ANTHEM
PROPERTIES

ANNUAL REPORT 2001

Report to Shareholders

Anthem Properties Corp. is a TSE listed real estate company with core businesses in retail and industrial property investment, development and management. It also holds a portfolio of owned and co-owned office and US multi-family and land development properties, and is in the process of divesting most of these properties.

In 2001 Anthem continued its ongoing strategy of: selling mature office and multi-family assets; using the proceeds to pay down debt and buy back its shares at a discount to net asset value; seeking out growth opportunities in its core businesses – retail shopping centres in western Canada through its subsidiary Anterra Retail Properties Ltd., industrial developments in Greater Vancouver, British Columbia through Anthem Industrial Ltd., and niche opportunities within the Anthem Investment Group; and continuing to operate its remaining non-core corporate and syndicated assets with dedication and an eye to the future.

Highlights for the Year

- Increased funds from operations per share by $0.37 per share, a 26% improvement over 2000.
- Sold 11 revenue-producing properties for net after-tax gains of $2.5 million.
- Purchased and cancelled 37,868 common shares throughout the year at an average price of $6.45 per share under the company's normal course issuer bids.
- Purchased a 17.1 acre development site in Langley BC and commenced the development of Langley Power Centre, a 228,000 square foot retail project. Construction of the Centre is now, subsequent to year-end, substantially complete and about 80% of the merchants are in place and open for business. The centre is 100% leased.
- Completed construction of a 27,000 foot London Drugs at Sunnycrest Mall in Gibsons BC and is in the process of revitalizing and renovating the balance of the Mall. The inclusion of London Drugs and the revitalization of the existing Mall will further strengthen Sunnycrest Mall's position as the dominant retail centre on the Sunshine Coast.
- Purchased an 86 acre industrial development site in Burnaby BC by way of a joint venture, and commenced the land development portion of the project.

Outlook for 2002

In 2002 we will continue to sell office properties and pay down debt, and will continue to nurture and grow our existing retail and industrial portfolios. Within these asset classes we will continue to seek out both higher return value-added opportunities, and investments in established revenue-producing projects.

Anthem continues to push forward, adapting our strategies as circumstances change. We have a committed and dedicated team, a strong financial position and a diversified portfolio of great properties.

We look forward to 2002 and beyond.

Eric H. Carlson, C.A.

President and Chief Executive Officer

YEAR END RESULTS – DECEMBER 31, 2001

Management's Discussion and Analysis of Operations and Financial Condition

The following should be read in conjunction with the consolidated financial statements and the notes attached thereto.

OVERVIEW

Anthem Properties Corp. ("Anthem" or the "Company") is a TSE listed real estate company with core businesses in retail property investment, development and management and industrial property development. It also holds a portfolio of owned and co-owned office and multi-family properties, and is in the process of divesting most of these properties.

As at December 31, 2001, the Company owned 21 properties with a net book value of $200 million. In addition, the Company holds economic or management interests in a further 14 projects, entitling the Company to cash flow participation in the projects through management fees, disposition fees and equity sharing.

Owned

Asset Class	2001 # Of Projects	Net Book Value (Thousands)	Square Feet	# of Units	2000 # of Projects	Net Book Value (Thousands)	Square Feet	# of Units
Retail	11	$121,721	1,208,000	-	11	$ 91,244	976,000	-
Office	8	75,478	791,000	-	14	99,302	1,033,000	-
Multi-family	-	-	-	-	3	23,039	386,000	486
Other	2	3,280	-	-	2	9,634	26,000	-
Total	**21**	**$200,479**	**1,999,000**	**-**	**30**	**$223,219**	**2,421,000**	**486**

Economic or management interests

Asset Class	2001 # of Projects	Square Feet	# of Units	2000 # of Projects	Square Feet	# of Units
Retail	1	186,000	-	1	186,000	-
Office	3	329,000	-	3	329,000	-
Multi-family	8	1,752,000	2,096	8	1,752,000	2,096
Other	2	-	-	2	-	-
Total	**14**	**2,267,000**	**2,096**	**14**	**2,267,000**	**2,096**

RESULTS OF OPERATIONS

Funds from operations increased to $6.9 million in 2001 or $1.81 per share basic and fully diluted up from $6.1 million or $1.44 per share basic and fully diluted in 2000. The $0.8 million increase in funds from operations and $0.37 increase in funds from operations per share were primarily the result of lower interest costs on the Company's real estate and corporate debt. Funds from operations per share also benefited from the Company repurchasing its own shares throughout 2000 and 2001.

Net earnings was $2.6 million in 2001 or $0.68 per share basic and fully diluted, compared to $8.7 million or $2.06 per share basic and fully diluted in 2000. The decrease in net earnings and net earnings per share was primarily due to two factors, the significant gains associated with the sale of five revenue-producing properties in 2000 and the provision for the diminution in value of certain revenue-producing properties in 2001. The Company reported an after-tax gain on property sales of $6.9 million or $1.64 per share in 2000, as compared to $2.5 million or $0.65 per share in 2001. The Company also recorded a provision of $2.7 million after-tax in 2001 for the diminution in value of certain revenue-producing properties.

Retail portfolio

Anthem's retail portfolio consists of nine grocery store anchored, neighbourhood retail centres, a downtown retail and office project, and a retail development project; these properties are located in B.C. and Alberta. During the year, the Company disposed of a 23,000 square foot retail property in Alberta for a net gain of $180,000, purchased a 17.1 acre development site in Langley, B.C. for $10.7 million and commenced construction of a 228,000 square foot retail project, and completed the addition of a 27,000 square foot London Drugs at Sunnycrest Mall in Gibsons, B.C.

Retail rental revenue decreased to $14.0 million in 2001 from $14.6 million in 2000, while net operating income decreased to $9.3 million in 2001 from $9.6 million in 2000. This decrease was mainly due to the sale of a 23,000 square foot retail project during the year.

In 2001 new retail leases totaling 20,618 square feet (2000 – 19,160) and renewals of 55,053 square feet (2000 – 60,732) were signed within the existing revenue-producing property portfolio. The average leasing rate on renewals increased by $0.27 per square foot; this represents a 1.7 % increase. In addition, the Company signed new retail leases totaling 146,000 square feet on its development project in Langley, B.C. and new leases totaling 27,000 square feet on its addition to Sunnycrest Mall in Gibsons, B.C.

Overall occupancy in the portfolio was down from 95% at December 31, 2000 to 92% at December 31, 2001.

Subsequent to year-end, in March 2002, the Company completed the acquisition of a shopping centre located in Westbank, B.C. for $9.4 million.

Office portfolio

Anthem's office portfolio consists of eight small to medium sized office buildings in Canada and the U.S. During the year, the Company sold six office properties for a net gain of $2.0 million and set up a provision for the diminution in value of two office properties totaling $4.1 million.

Office rental revenue increased to $16.4 million in 2001 from $15.6 million in 2000, and net operating income increased to $8.7 million in 2001 from $8.3 million in 2000. The increase is mainly due to the redevelopment and lease-up of the Company's 191,000 square foot office property in downtown Toronto. This project was reclassified from a property under development to a revenue-producing property on May 1, 2000.

Office rental rates have been improving. The Company signed new leases totaling 102,000 square feet in 2001 and renewals totaling 33,000 square feet. Average rental increases from renewals were $3.61 per square foot, a 34% increase. Overall occupancy in the portfolio was 90% at December 31, 2001 (90% - December 31, 2000).

Multi-family and Other

Anthem sold its remaining three multi-family properties in 2001 for a net gain of $1.8 million, sold its 26,000 square foot parking lot for a net loss of $150,000, and purchased a joint venture interest in an 86 acre industrial development site in Burnaby, B.C.

Net earnings from the Company's home building joint venture decreased to $570,000 in 2001 from $1.3 million in 2000. The home building joint venture sold 28 homes in 2001, 33 in 2000, and has eleven homes remaining in 2002 for development and sale.

Fees and other income

Fees and other income consist mainly of activities associated with the economic or management interests the Company holds in 14 (1999 – 14) syndicated projects, plus corporate interest and other income. Fees and other income decreased to $5.0 million in 2001 from $5.5 million in 2000, largely resulting from higher disposition fees and partnership carried interest income earned in 2000 as compared to 2001.

Interest expense

Interest expense was $12.2 million in 2001, a decrease of $3.3 million from 2000. This decrease is attributable to the disposition of eleven revenue-producing properties during the year, lower interest costs on debt refinancings and rollovers, and lower interest costs from the repayment in 2001 of share buyback bridge loans and other corporate debt. The Company's weighted average interest rate on real estate asset debt decreased from 8.18% in 2000 to 6.14% in 2001 and the Company's weighted average interest rate on corporate debt increased to 10.15% in 2001 from 10.0% in 2000. For the year ended December 31, 2001, Anthem had total interest coverage of 1.62 to 1 (2000 – 2.22 to 1) and a debt to equity ratio of 2.20 to 1 (2000 – 2.90 to 1).

General and administration

General and administration includes the costs of the Company's corporate activities. General and administration remained constant at $2.7 million for both 2001 and 2000.

Depreciation and amortization

Depreciation and amortization amounted to $3.3 million in 2001, an increase of $0.5 million over 2000. This increase is mainly attributable to additional capital improvement and tenant inducement costs and the amortization of those costs.

FINANCIAL CONDITION

Assets

Total assets decreased from $245.3 million at December 31, 2000 to $221.4 million at December 31, 2001. The table below summarizes Anthem's asset base.

	2001 (Millions)	2000 (Millions)
Revenue-producing properties	$162.3	$219.0
Properties under development	38.2	4.2
Cash and cash equivalents	4.6	5.9
Amounts and loans receivable	7.5	4.0
Other assets	4.0	6.4
Future income taxes	4.8	5.8
Totals	**$221.4**	**$245.3**

Revenue-producing properties

Revenue-producing properties decreased to $162.3 million at December 31, 2001 from $219.0 million at December 31, 2000. The Company disposed of eleven revenue-producing properties in 2001 for $60.4 million (net book value of properties sold - $56.6 million) and set up a provision of $4.5 million for the diminution in value of certain remaining revenue-producing properties. Capital expenditures and leasing costs totaled $4.3 million in 2001.

Properties under development

Properties under development increased from $4.2 million at December 31, 2000 to $38.2 million at December 31, 2001. The increase is due to the purchase of a 17.1 acre development site in Langley, B.C. and the commencement of the development of a 228,000 square foot retail centre, the expansion of Sunnycrest Mall in Gibsons, B.C., and the purchase of a joint venture interest in an industrial development project in Burnaby, B.C.

Amounts and loans receivable

Amounts and loans receivable consist of interest bearing loans and non-interest bearing receivables due from limited partnerships where a subsidiary of Anthem is the general partner, interest bearing loans to joint venture partners and receivables from tenants that arise from the normal course of operations. The increase in total receivables is due to additional loans to limited partnerships and joint venture partners during the year.

Other assets

Other assets are primarily made up of prepaid expenses and deferred costs on the Company's revenue-producing properties, deferred financing costs and deferred development costs. Other assets decreased by $2.4 million during the year, primarily from a reduction in deferred development costs from the purchase of the Company's 17.1 acre retail development site, and the inclusion of these costs as part of properties under development.

Future income taxes

Future income tax assets of $4.8 million at December 31, 2001 consist mainly of the tax impact of non-capital loss carry forwards from Anthem's Canadian operations and deductible equity issue costs on the Company's equity offerings. The $1.0 million decrease from 2000 to 2001 is due to a general reduction in federal and provincial income tax rates.

Future income tax liabilities of $4.8 million at December 31, 2001 consist of the tax impact of the difference between accounting depreciation of the Company's revenue-producing properties as compared to the tax deductibility of a property's capital cost. The $1.7 million decrease is due to two factors, a general reduction in federal and provincial income tax rates, and the impact of property sales during the year.

Capital structure

The table below summarizes Anthem's capital structure.

	2001 (Millions)	2000 (Millions)
Mortgages payable - revenue-producing properties	$110.6	$145.4
Construction financiang - properties under development	27.0	2.7
Loans and debenture payable	9.2	22.7
Shareholders' equity	61.7	59.1
Totals	**$208.5**	**$229.9**

Debt on real estate assets

Mortgages payable on revenue-producing properties decreased by $34.8 million in 2001 from $145.4 million to $110.6 million. Mortgages payable decreased largely as a result of mortgages retired on eleven property sales of $38.8 million and ongoing principal repayments of $3.8 million, offset by increases to existing mortgages of $6.2 million.

Construction financing on properties under development increased by $24.3 million during 2001, primarily from construction financing on the Company's 228,000 square foot retail development project.

The Company has $107 million of debt on real estate assets maturing during 2002. Anthem will refinance these maturities through renewing the existing loans or arranging new loans. The Company's fixed rate debt represented 85% of total debt at year-end 2001. The weighted average interest rate on the Company's real estate debt decreased from 8.18% in 2000 to 6.14% in 2001.

Loans and debentures payable

Loans and debentures payable decreased by $13.5 million during 2001, as a result of the repayment of $5.5 million in loans related to the Company's February 2000 share buyback program, a repayment of $6.7 million in other loans and debentures, and a decrease of $1.3 million in the use of the Company's credit line.

Shareholders' equity

Anthem's shareholders' equity increased from $59.1 million at December 31, 2000 to $61.7 million at December 31, 2001. Retained earnings increased as a result of net earnings of $4.0 million and an increase in the foreign currency translation adjustment of $233,000 due to a strengthening of the U.S. dollar in comparison to the Canadian dollar. Also, the Company purchased and cancelled 37,868 common shares at an average price of $6.45 per share during year - 37,368 common shares under a normal course issuer bid that expired March 13, 2001 and 500 common shares under a normal course issuer bid which commenced March 27, 2001.

In addition, subsequent to year-end, in January 2002, Anthem completed a substantial issuer bid whereby the Company purchased and cancelled 478,036 common shares at $8.25 per share.

Liquidity and capital commitments

In the normal course of its business, Anthem has capital requirements for the principal component of mortgage payments, leasing costs and capital expenditures. Anthem funds these requirements with funds from operations, although in some cases capital expenditures and leasing costs are funded by the underlying mortgage. Leasing costs and capital expenditures totaled $4.3 million in 2001 down from $4.5 million in 2000.

For the year ended December 31, 2001, funds from operations was $6.9 million. Anthem believes that funds from operations will be sufficient to fund operational requirements.

RISK MANAGEMENT

Anthem faces a number of operating risks in the normal course of its business. These risks along with the Company's strategies to reduce their potential impact are summarized below.

Real estate industry

Anthem faces risks typically associated with the real estate industry as a whole. Factors such as national and local economic conditions, competition from other property owners, and changes in consumer spending and general employment have an impact on the supply and demand for retail, office and industrial properties by tenants. Also, the Company's portfolio is subject to more specific risks such as the ability to lease vacant space, lease renewals, tenant failures, the ability to secure favorable net rents, and the reliance on anchor tenants. Anthem manages these risks through:

- Due diligence – a comprehensive acquisition due diligence process prior to acquiring properties and a formalized lease review process prior to accepting new tenancies;
- Geographic and asset class diversification – Anthem's portfolio is located in several high growth markets including: British Columbia, Alberta, Ontario, Texas and Colorado; and currently operates in three main asset classes: retail, office, and industrial land development;
- Lease maturity management – management of lease maturities such that no single year would be significantly affected by unusually large vacancies; and
- Anchor tenant management – ownership of well-located properties, advance planning for replacing anchor tenants where there is an increased risk of loss, and proactive management of anchor tenant requirements.

Leverage and interest rates

The capital intensive nature of the real estate industry is such that Anthem is subject to risks related to leverage and interest rates. The Company mitigates these risks by staggering loan maturity dates and by establishing long-term guidelines for interest coverage (minimum 1.5 times) and the ratio of mortgage and other related debt to equity (maximum 3:1).

Foreign exchange

Anthem maintains its accounts in Canadian dollars. A portion of the Company's business is carried on in the United States; therefore Anthem is subject to foreign exchange risk. Anthem mitigates this risk by ensuring that U.S. based assets are financed by U.S. dollar denominated debt. This limits this risk to the net equity in U.S. properties. During 2001, the Company's foreign exchange risk was reduced due to the sale of seven U.S. based assets with a net book value of $42.5 million.

OUTLOOK

Anthem continued its consolidation strategy in 2001, selling mature assets throughout the year, paying down debt, and repurchasing its own shares at prices below the underlying net asset value.

Anthem will continue this process in 2002, but more importantly, will continue to nurture and grow its core businesses in retail properties and industrial land development, seeking out higher return value-added opportunities, such as its retail development in Langley, B.C., its retail expansion in Gibsons, B.C. and its industrial development joint venture in Burnaby, B.C.

Anthem continues to do well. We have evolved our strategies and will continue to do so as circumstances change. Anthem is well positioned for the years ahead.

FINANCIAL STATEMENTS

RESPONSIBILITY OF MANAGEMENT

The Annual Report, including the Consolidated Financial Statements, is the responsibility of management of the Corporation. Management's Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles as prescribed by The Canadian Institute of Chartered Accountants, and conform substantially with the recommendations of the Canadian Institute of Public Real Estate Companies in all material respects. Financial information contained elsewhere in the Report is consistent with the information contained in the financial statements.

Management maintains a system of internal controls, which provides reasonable assurance that the assets of the Corporation, its subsidiaries and joint ventures are safeguarded. These controls also facilitate the preparation of relevant, timely and reliable financial information that reflects, where necessary, management's best estimates and judgments based on informed knowledge of the facts.

The Corporation's external auditors, KKPMG LLP, have performed an independent audit of the Consolidated Financial Statements.

The audit committee of the board of directors of the Corporation has reviewed the Consolidated Financial Statements with management and the external auditors, KPMG LLP, and recommended their approval by the board of directors. The auditors have full access to the audit committee, with and without management being present.

Eric H. Carlson, C.A.
President and
Chief Executive Officer

David Ferguson
Vice President and
Chief Financial Officer

Auditors' Report to the shareholders

We have audited the consolidated balance sheets of Anthem Properties Corp. as at December 31, 2001 and 2000 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG LLP

Chartered Accountants
Vancouver, Canada
February 15, 2002

ANTHEM PROPERTIES CORP.

Consolidated Balance Sheets

December 31, 2001 and 2000

	2001	2000
Assets		
Properties:		
Revenue-producing (note 3)	$ 162,325,224	$ 219,010,089
Properties under development (note 4)	38,153,526	4,209,506
	200,478,750	223,219,595
Cash and cash equivalents	4,601,247	5,907,801
Amounts and loans receivable (note 5)	7,450,404	3,937,914
Other assets (note 6)	4,058,161	6,409,488
Future income taxes (note 11)	4,804,966	5,801,723
	$ 221,393,528	**$ 245,276,521**
Liabilities and Shareholders' Equity		
Debt on real estate assets (note 7)	$ 137,612,028	$ 148,138,099
Amounts payable (note 8)	8,067,693	8,804,424
Loans and debentures payable (note 9)	9,220,721	22,705,280
Future income taxes (note 11)	4,837,767	6,539,440
	159,738,209	186,187,243
Shareholders' equity (note 10)	61,655,319	59,089,278
	$ 221,393,528	**$ 245,276,521**

Commitments (note 13)
Subsequent event (note 15)

See accompanying notes to consolidated financial statements.

Approved on the behalf of the Board:

Director

Director

ANTHEM PROPERTIES CORP.

Consolidated Statements of Operations and Retained Earnings

Years Ended December 31, 2001 and 2000

	2001	2000
Rental revenue and cost recoveries	$ 32,655,768	$ 36,029,599
Rental expenses:		
Property operating costs and taxes	13,656,557	15,013,070
Interest	9,872,793	12,253,311
Depreciation	3,222,044	2,644,571
	26,751,394	29,910,952
Rental income	5,904,374	6,118,647
Real estate sales:		
Sales	9,619,492	11,298,101
Cost of sales	9,048,959	9,975,291
	570,533	1,322,810
Fees and other income (note 17):		
Property and asset management fees	1,704,907	2,862,048
Interest and other	3,327,050	2,655,598
	5,031,957	5,517,646
	11,506,864	12,959,103
Operating expenses:		
General and administrative	2,713,219	2,735,888
Property and asset management	1,964,745	1,943,200
Amortization	121,434	121,927
Interest (note 17)	2,288,039	3,204,375
Capital taxes	396,719	343,368
	7,484,156	8,348,758
Earnings from operations	4,022,708	4,610,345
Other income (expense):		
Gain on sale of revenue-producing properties	3,815,806	11,494,003
Diminution in value of revenue-producing properties	(4,500,000)	-
Foreign exchange gain (loss)	886,626	(19,029)
Earnings before income taxes	4,225,140	16,085,319
Provision for income taxes (note 11)	1,641,290	7,397,759
Net earnings	2,583,850	8,687,560
Retained earnings, beginning of year	16,285,870	7,598,310
Retained earnings, end of year	$ 18,869,720	$ 16,285,870
Earnings per share (note 2(k)):		
Basic and fully diluted	$ 0.68	$ 2.06

See accompanying notes to consolidated financial statements.

ANTHEM PROPERTIES CORP.

Consolidated Statements of Cash Flows

Years Ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Net earnings	$ 2,583,850	$ 8,687,560
Adjustments for:		
Depreciation and amortization	3,343,478	2,766,498
Amortization of deferred financing costs	574,911	742,114
Gain on sale of revenue-producing properties net of tax of $1,324,817 (2000 - $4,555,073)	(2,490,989)	(6,938,930)
Diminution in value of revenue-producing properties	4,500,000	-
Foreign exchange loss (gain)	(886,626)	19,029
Future income taxes (recovery)	(704,916)	816,483
Funds from operations	6,919,708	6,092,754
Recovery of costs through real estate sales	9,048,959	9,975,291
Acquisitions and development of properties for sale	(7,371,011)	(9,345,720)
Additions to deferred financing costs	(705,357)	(190,043)
Additions to deferred charges	(984,795)	(312,161)
Changes in non-cash financing operating working capital (note 14)	(7,011,760)	(5,534,419)
	(104,256)	685,702
Investments:		
Additions to revenue-producing properties	(4,093,191)	(4,086,142)
Proceeds from sale of revenue-producing properties, net of costs	26,889,575	32,562,611
Additions to revenue-producing property under development	(33,260,812)	(738,776)
Additions to deferred development costs	(214,144)	(2,361,156)
Advances from loans receivable	(1,833,482)	(2,677,075)
Repayment of loans receivable	500,000	1,554,200
Capital asset expenditures	(49,790)	(51,100)
Increase (decrease) in accounts payable for revenue-producing properties under development	2,678,966	(800,277)
Foreign exchange gain	765,661	-
	(8,617,217)	23,402,285
Financing:		
Proceeds from debt on real estate assets	41,433,739	3,132,971
Repayment of debt on real estate assets	(20,740,737)	(13,498,975)
Redemption of common shares	(250,393)	(14,109,968)
Proceeds from loans payable	-	29,570,000
Repayment of loans payable	(13,484,559)	(32,353,950)
Decrease in funds held in escrow	456,869	926,741
	7,414,919	(26,333,181)
Decrease in cash and cash equivalents	(1,306,554)	(2,245,194)
Cash and cash equivalents, beginning of year	5,907,801	8,152,995
Cash and cash equivalents, end of year	$ 4,601,247	$ 5,907,801
Funds from operations, per share:		
Basic and fully diluted	$ 1.81	$ 1.44

Supplementary information (note 14)

See accompanying notes to consolidated financial statements.

1. Business combination and basis of presentation:

Anthem Properties Corp. (the "Company") was incorporated on July 18, 1997 and is engaged in the ownership, development, and management of commercial and residential real estate properties.

2. Significant accounting policies:

(a) General:

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and also comply, in all material respects, with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

(b) Principles of consolidation:

The consolidated financial statements include:

(i) the accounts of the Company and its subsidiaries; and

(ii) the accounts of joint ventures to the extent of the Company's proportionate interest in each of the joint ventures' respective assets, liabilities, revenues and expenses.

All significant intercompany balances and transactions have been eliminated.

(c) Properties:

(i) Revenue-producing properties:

Revenue-producing properties are stated at the lower of cost, net of accumulated depreciation, and net recoverable amount. Net recoverable amount is calculated using the estimated non-discounted future cash flows of the properties and may differ from the net realizable values of the properties.

Depreciation on buildings is determined using the sinking-fund method whereby an increasing amount of depreciation, consisting of a fixed amount together with interest compounded at a rate of 5% per annum, is charged to income so as to fully amortize the buildings over their estimated useful lives of 40 years. Building improvements are amortized on a straight-line basis over their estimated useful lives ranging from 5 - 20 years.

Tenant inducements are amortized on a straight-line basis over the terms related to the leases.

(ii) Properties under development:

Properties under development are recorded at the lower of cost and estimated net realizable value. Cost includes all expenditures incurred in connection with the acquisition, development and construction of these properties.

(d) Capitalization of costs:

The Company capitalizes all direct costs relating to the acquisition of properties. For revenue-producing properties under development, leasing costs, operating costs, certain indirect costs and property taxes net of any related revenues are capitalized until attaining the earlier of a break-even point in cash flow after debt servicing or the expiration of a reasonable period of time following substantial completion, subject to the time limitation determined at the approval of the project.

2. Significant accounting policies (continued):

(e) Cash and cash equivalents:

Cash and cash equivalents consists of cash in hand, cash held at banks and term deposits maturing within ninety days when acquired.

(f) Investments:

Investments where the Company exercises significant influence are accounted for using the equity method.

Other investments are recorded at cost, less a provision for permanent impairment in value, if necessary.

(g) Deferred costs:

Deferred property interests relate to the cost of acquiring disposition fee interests in properties from third parties. Deferred property interests are amortized to income in proportion to the recognition of income to which the interests relate.

Deferred financing costs are amortized on a straight-line basis over the terms of the related debt. Amortization of $574,911 (2000 - $742,114) is classified in interest expense.

Deferred charges relate to recoverable capital expenditures from tenants. Deferred charges are amortized on a straight-line basis over the expected period of recovery.

Deferred development costs relate to the acquisition, development, re-development, financing and marketing of potential revenue-producing properties.

(h) Foreign currency translation:

Foreign operations are all of a self-sustaining nature. Assets and liabilities of foreign operations are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Related foreign currency translation adjustments are recorded as a separate component of shareholders' equity until realized.

(i) Measurement uncertainty:

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

The significant areas requiring management estimates include useful lives for depreciation and amortization and the impairment of revenue-producing properties.

(j) Revenue recognition:

The Company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes percentage participating rents and recoveries of operating expenses.

Income from the sale of properties under development is recorded when the collection of the sale proceeds is reasonably assured and all other significant conditions are met.

Property management fees and asset management fees are recorded monthly as earned.

Disposition fees are recognized on the closing date of sales.

2. Significant accounting policies (continued):

(k) Per share information:

For the year ended December 31, 2001, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to earnings per share. Under the new standard, the dilutive effect of options issued is determined using the treasury stock method, whereby the cash to be received from the exercise of outstanding dilutive options is deemed to be applied to the repurchase of common shares at the average market price for the period. The Company had no dilutive options outstanding during the years ended December 31, 2001 and 2000. Options of 531,000 (2000 – 581,000) were not included in the computation of diluted earnings per share because to include them would have been anti-dilutive for the periods presented (note 10(c)). The basic and diluted weighted average numbers of shares outstanding during the year are 3,816,904 (2000 – 4,218,095). The effect of the retroactive application of the new standard resulted in an increase in 2000's diluted earnings per share by $0.20 and an increase of 2000's diluted funds from operations per share by $0.12.

(l) Share option plans:

The Company's share option plans are described in note 10(c). No compensation expense is recognized when shares or share options are issued. Any consideration paid on exercise of options or purchase of shares is credited to share capital.

(m) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment, or substantive enactment, date.

(n) Comparative figures:

Certain comparative figures for 2000 have been reclassified to conform with the presentation adopted in the current year.

3. Revenue-producing properties:

	2001	2000
Land	$ 44,098,904	$ 59,459,807
Buildings and improvements	119,624,516	159,780,091
Tenant inducements	5,347,321	5,413,073
	169,070,741	224,652,971
Accumulated depreciation	(6,745,517)	(5,642,882)
	$ 162,325,224	$ 219,010,089

4. Properties under development:

	2001	2000
Revenue-producing properties under development	$ 34,873,217	$ -
Properties held for sale	3,280,309	4,209,506
	$ 38,153,526	$ 4,209,506

Costs capitalized to properties under development during the year were as follows:

	2001	2000
Interest	$ 2,068,752	$ 466,462
Administrative	305,738	81,151
Property taxes	213,709	403,458
Net rental income	(513,534)	(565,963)
	$ 2,074,665	$ 385,108

Properties under development for sale at December 31, 2001 includes a 50% ownership interest in 11 lots (2000 - 39 lots) costing $628,476 (2000 - $1,898,739) which was purchased from a partnership for which a subsidiary of the Company acts as the general partner.

5. Amounts and loans receivable:

	2001	2000
Amounts receivable	$ 4,394,902	$ 2,734,068
Loans receivable	3,055,502	1,203,846
	$ 7,450,404	$ 3,937,914

Amounts and loans receivable at December 31, 2001 include $1,070,975 (2000 - $586,731) due from partnerships for which the Company acts as the general partner and $732,899 (2000 - $69,828) due from companies related by virtue of directors in common.

6. Other assets:

		2001		2000
Prepaid expenses	$	1,078,679	$	822,953
Deferred charges		1,064,940		312,161
Deferred financing costs		763,397		948,041
Funds held in escrow		379,074		835,943
Capital assets less accumulated amortization of $502,288 (2000 - $380,854)		275,230		346,874
Deferred property interests		226,149		226,149
Deferred development costs		214,144		2,361,156
Investments		56,548		556,211
	$	4,058,161	$	6,409,488

Investments include $56,548 (2000 - $56,211) relating to a 100% ownership in various general partners which entitle such general partners to a 20% to 30% carried interest in the profits of the partnership, subject to a 12% to 20% preferred return to the limited partners.

7. Debt on real estate assets:

Debt By Category:

		2001		2000
Mortgages payable on revenue-producing properties	$	110,567,228	$	145,388,272
Construction financing on properties under development		27,044,800		2,749,827
	$	137,612,028	$	148,138,099

Debt By Interest Obligation:

		2001		2000
Fixed rate at a weighted average year end interest rate of 6.37% (2000 - 7.74%)	$	116,742,018	$	112,385,547
Floating rate at a weighted average year end interest rate of 4.85% (2000 - 9.39%)	$	20,850,000	$	35,752,552
	$	137,612,028	$	148,138,099

All mortgages payable are secured by the revenue-producing properties.

Mortgages payable at December 31, 2001 include mortgages in the amount of $9,685,774 (2000 - $38,865,241) which are denominated in United States dollars of U.S. $6,081,355 (2000 - U.S. $25,918,800).

Construction financing includes several construction loans bearing interest variable with the U.S. prime lending rate and are secured by the Company's residential properties under development. The construction loans include the amount of $1,866,043 (2000 - $2,749,827) which are denominated in United States dollars of U.S. $1,171,623 (2000 - U.S. $1,833,829).

Prior to year end, the Company entered into an agreement with a lender to replace one of its construction loans in the amount of $22,929,000 with mortgage financing. The new mortgage bears interest at a rate of 6.56% per annum, matures on February 1, 2007 and is able to be drawn by the Company prior to March 28, 2002 to a maximum of $25,000,000.

7. Debt on real estate assets (continued):

Scheduled minimum principal repayments of debt on real estate assets in each of the next five years ending December 31 and in aggregate thereafter are as follows:

2002	$ 106,993,603
2003	6,010,028
2004	16,926,053
2005	733,865
2006	798,299
Thereafter	6,150,180
	$ 137,612,028

8. Amounts payable:

Amounts payable at December 31, 2001 include $160,449 (2000 - $153,964) due to companies related by virtue of directors in common.

9. Loans and debentures payable:

	2001	2000
Loans payable	$ 3,686,470	$ 12,060,470
Debentures payable	5,534,251	10,644,810
	$ 9,220,721	$ 22,705,280

The loans payable include:

(a) Loans of $2,804,000 (2000 - $4,408,000), which bear interest at 9.5% to 11.5% (2000 - 12.5%) per annum, due to a company related by virtue of directors in common. The loans have terms of three to five years with principal repayments commencing on December 31, 2004.

(b) 882,470 series 1 preferred shares in the amount of $882,470 (2000 - $882,470), which entitle the holders to an annual cumulative cash dividend of $0.06 per share. After October 1, 2002, the holders are entitled to require the Company to pay the full redemption price being $1 per share, together with all accrued and unpaid dividends whether or not declared.

(c) At December 31, 2001 a non-revolving bank loan of $5,550,000 which was secured by a general security agreement, certain mortgages and an assignment of the sales proceeds of certain revenue producing properties. The loan bore interest at 12% per annum and was due June 21, 2001.

(d) At December 31, 2000 a demand operating line of $1,220,000 which bore interest at prime plus 1.5%.

The debentures payable, which are unsecured and subordinated to all senior indebtedness of the Company, have terms of three to five years with principal repayments commencing on December 31, 2002. The debentures bear interest at 9% to 11% per annum and interest payments are made quarterly.

10. Shareholders' equity:

	2001	2000
Share capital	$ 29,862,831	$ 30,159,617
Contributed surplus	12,005,158	11,958,765
	41,867,989	42,118,382
Foreign currency translation adjustment	917,610	685,026
Retained earnings	18,869,720	16,285,870
	$ 61,655,319	$ 59,089,278

10. Shareholders' equity (continued):

Share capital:

(a) Authorized:
250,000,000 common shares, without par value
250,000,000 preferred shares, with a par value of $1 (note 9(b))

(b) Issued and outstanding common shares:

		Number of shares		Amount
Balance, December 31, 1999		6,322,443	$	49,551,426
Purchased and cancelled	(i)	(2,474,270)		(19,391,809)
Balance, December 31, 2000		3,848,173		30,159,617
Purchased and cancelled	(ii)	(37,868)		(296,786)
Balance, December 31, 2001		3,810,305	$	29,862,831

(i) On January 17, 2000, under a substantial issuer bid, the Company announced its intention to purchase for cancellation up to 2,750,000 common shares at $5.65 per share. Under this program, the Company purchased 2,310,770 common shares.

On March 10, 2000, under a normal course issuer bid, the Company announced its intention to purchase for cancellation up to 200,583 common shares. To December 31, 2000, the Company purchased 163,500 common shares at an average price of $5.15 per share.

After the consideration of transaction costs, the Company recorded $19,391,809 as a reduction of share capital and $5,281,841 as contributed surplus.

(ii) In 2001, the Company purchased 37,368 common shares at an average price of $6.45 per share under the normal course issuer bid announced on March 10, 2000.

On March 27, 2001, under a normal course issuer bid, the Company announced its intention to purchase for cancellation up to 190,540 common shares. To December 31, 2001, the Company purchased 500 common shares at an average price of $6.00 per share.

After the consideration of transaction costs, the Company recorded $296,786 as a reduction of share capital and $46,393 as contributed surplus.

(c) Stock options:

As at December 31, 2001, the Company has a share option plan outstanding providing for the issuance of up to 900,000 options. The plan provides that options have a maximum term of eight years and are exercisable at a price not less than fair market value of the shares at the time of grant.

The following table summarizes the status of the share option plan:

	2001 share options outstanding	Weighted average price	2000 share options outstanding	Weighted average price
Outstanding, January 1	581,000	$9.00	603,000	$ 9.00
Forfeited	(50,000)	9.00	(22,000)	9.00
Outstanding, December 31	531,000	$9.00	581,000	$ 9.00
Exercisable, December 31	501,000		403,250	

The weighted average remaining life of the 531,000 options outstanding at December 31, 2001 was four years.

11. Income Taxes:

		2001		2000
Provision for income taxes:				
Current	$	2,346,206	$	6,581,276
Future (recovery)		(704,916)		816,483
	$	1,641,290	$	7,397,759

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

		2001		2000
Income before income taxes	$	4,225,140	$	16,085,319
Statutory rate		44.06%		45.60%
Income tax expense at statutory rate	$	1,861,597	$	7,322,593
Foreign taxes less than statutory rate		(46,612)		(711,527)
Federal large corporations tax		414,607		316,276
Permanent differences and other reconciling items		(588,302)		470,417
Income tax expense	$	1,641,290	$	7,397,759

The tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities at December 31, 2001 are presented below:

Future income tax assets:				
Non-capital loss carry forwards	$	3,602,239	$	3,775,199
Deductible equity issue costs		366,623		714,909
Deferred financing costs		145,412		500,936
Other		690,692		558,814
Investments		-		251,865
Total gross future income tax assets		4,804,966		5,801,723
Future income tax liabilities:				
Income-producing properties		3,757,846		6,211,301
Investments		339,224		-
Other		740,697		328,139
Total gross future income tax liabilities		4,837,767		6,539,440
Net future income tax liabilities	$	(32,801)	$	(737,717)

12. Financial instruments:

(a) Fair value:

The Company has the following financial instruments: amounts receivable, loans receivable, amounts payable, loans payable, debentures payable, mortgages payable, construction financing, disposition fee agreements and general partner interests in various limited partnerships. The carrying values of amounts receivable, amounts payable, and construction financing approximate their fair values due to their short term nature. Loans receivable, loans payable, debentures payable, and mortgages payable of a longer term nature are impacted by changes in market yields which can result in differences between the carrying value and the market value of such instruments. Due to the nature of the disposition fee agreements and the general partner interests in the various limited partnerships, the absence of a readily available secondary market for such financial instruments and the costs associated with obtaining an outside appraisal, the Company does not believe it is practicable to determine their fair value with sufficient reliability.

(b) Interest rate risk:

The terms of the Company's outstanding debt on real estate assets, loans and debentures repayable are described in notes 7 and 9. As certain of the Company's debt instruments bear interest at floating rates, fluctuations in these rates will impact the cost of financing incurred in the future.

(c) Credit risk:

Due to the nature of the Company's operations, it does not face any significant credit risk and there are no material concentrations of credit risk.

13. Commitments:

The estimated costs to complete the committed properties under development are $6,522,000 (2000 - $3,139,000). The Company has arranged development financing to fund these expenditures. As at December 31, 2001, the Company's unused financing related to properties under development aggregated $4,640,000 (2000 - $2,832,000).

14. Supplementary information:

The change in non-cash operating working capital balances consists of the following:

		2001		2000
Amounts receivable	$	(1,539,869)	$	(846,644)
Other assets		-		171,912
Prepaid expenses		(255,726)		53,099
Amounts payable		(5,216,165)		(4,912,786)
	$	(7,011,760)	$	(5,534,419)

Other supplementary information:

		2001		2000
Other supplementary information:				
Interest paid	$	12,062,068	$	15,767,380
Taxes paid		7,308,147		7,514,481
Non-cash investing and financing activities:				
Mortgages assumed by purchaser on sale of revenue-producing properties		32,907,734		40,227,248

15. Subsequent event:

(a) In December 2001, the Company announced its intention to purchase up to 800,000 common shares of the Company at a price from $7.25 to $8.25 per share under a substantial issuer bid. No shares were purchased under the bid at December 31, 2001. At the completion of the transaction, on January 29, 2002, the Company had purchased and cancelled 478,036 common shares at a purchase price of $8.25 per share.

(b) Subsequent to December 31, 2001, the Company completed the aquisition of a shopping centre located in Westbank, British Columbia, for $9,400,000.

16. Segment disclosures:

	CANADA		U.S.		TOTAL	
	2001	2000	2001	2000	2001	2000
Assets						
Properties and other real estate investments:						
Office	$ 61,447,590	$ 65,009,703	$ 14,029,893	$ 34,292,650	$ 75,477,483	$ 99,302,353
Retail	121,720,958	91,244,148	-	-	121,720,958	91,244,148
Multi-family	-	-	-	23,039,227	-	23,039,227
Other	962,508	5,424,362	2,317,801	4,209,505	3,280,309	9,633,867
	$ 184,131,056	$ 161,678,213	$ 16,347,694	$ 61,541,382	200,478,750	223,219,595
Unallocated corporate assets					20,914,778	22,056,926
					$ 221,393,528	$ 245,276,521
Capital expenditures for segment assets:						
Office	$ 2,313,835	$ 1,637,447	$ 644,207	$ 1,930,799	$ 2,958,042	$ 3,568,246
Retail	33,758,759	506,475	-	-	33,758,759	506,475
Multi-family	-	-	107,829	414,146	107,829	414,146
Other	962,508	1,007,058	7,371,011	9,158,989	8,333,519	10,166,047
	$ 37,035,102	$ 3,150,980	$ 8,123,047	$ 11,503,934	$ 45,158,149	$ 14,654,914
Income from Operations						
A. RENTAL INCOME						
OFFICE						
Revenue	$ 11,296,961	$ 9,395,723	$ 5,105,135	$ 6,156,381	$ 16,402,096	$ 15,552,104
Property operating costs and taxes	4,424,373	3,685,962	3,256,177	3,584,939	7,680,550	7,270,901
Interest	2,504,613	2,674,902	1,695,559	2,230,793	4,200,172	4,905,695
Depreciation	1,130,777	808,655	863,067	642,622	1,993,844	1,451,277
	8,059,763	7,169,519	5,814,803	6,458,354	13,874,566	13,627,873
RETAIL						
Revenue	14,007,777	14,584,331	-	-	14,007,777	14,584,331
Property operating costs and taxes	4,727,880	4,976,069	-	-	4,727,880	4,976,069
Interest	5,053,355	5,428,017	-	-	5,053,355	5,428,017
Depreciation	1,080,042	921,367	-	-	1,080,042	921,367
	10,861,277	11,325,453	-	-	10,861,277	11,325,453
MULTI-FAMILY						
Revenue	-	-	2,244,463	5,377,164	2,244,463	5,377,164
Property operating costs and taxes	-	-	1,246,892	2,691,479	1,246,892	2,691,479
Interest	-	-	591,958	1,666,840	591,958	1,666,840
Depreciation	-	-	133,049	271,927	133,049	271,927
	-	-	1,971,899	4,630,246	1,971,899	4,630,246

16. Segment disclosures (continued):

	CANADA		U.S.		TOTAL	
	2001	2000	2001	2000	2001	2000
Income from Operations (continued):						
A. RENTAL INCOME (CONTINUED):						
OTHER						
Revenue	$ 1,432	$ 516,000	$ -	$ -	$ 1,432	$ 516,000
Property operating costs and taxes	1,235	74,621	-	-	1,235	74,621
Interest	27,308	252,759	-	-	27,308	252,759
Depreciation	15,109	-	-	-	15,109	-
	43,652	327,380	-	-	43,652	327,380
Total rental income	$ 6,341,478	$ 5,673,702	$ (437,104)	$ 444,945	$ 5,904,374	$ 6,118,647
B. DEVELOPMENT INCOME, NET	-	-	570,533	1,322,810	570,533	1,322,810
C. PROPERTY AND ASSET MANAGEMENT FEES						
Revenue	772,173	646,462	932,734	2,215,586	1,704,907	2,862,048
Expenses	889,857	438,918	1,074,888	1,504,282	1,964,745	1,943,200
	(117,684)	207,544	(142,154)	711,304	(259,838)	918,848
D. UNALLOCATED AMOUNTS						
Revenue					3,327,050	2,655,598
Expenses					(5,519,411)	(6,405,558)
					(2,192,361)	(3,749,960)
Earnings from operations					$ 4,022,708	$ 4,610,345
Other income					202,432	11,474,974
Earnings before income taxes					$ 4,225,140	$ 16,085,319

17. Related party transactions:

The Company had the following transactions with related parties:

	2001	2000
Fees and other income:		
Property and asset management fees:		
Earned from partnerships for which the Company acts as general partner	$ 1,183,145	$ 2,330,826
Earned from companies related by virtue of directors in common	497,614	484,566
	$ 1,680,759	$ 2,815,392
Interest and other:		
Earned from partnerships for which subsidiaries of the Company act as general partner	$ 2,764,384	$ 1,723,262
Earned from companies related by virtue of directors in common	153,957	-
	$ 2,918,341	$ 1,723,262
Operating expenses:		
Interest paid to companies related by virtue of directors in common	$ 472,477	$ 551,000

CORPORATE DIRECTORY

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Stephen Bellringer
Chairman

Eric Carlson
Director

John Croce
Director

Terry Holland
Director

Morley Koffman, Q.C.
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Eric Carlson
President and Chief Executive Officer

Garry Fawley
Vice President and Chief Development Officer
Anterra Retail Properties Ltd.

David Ferguson
Vice President Office and
Chief Financial Officer

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